

9 November 2020

S4 Capital plc
("S4Capital", "the Company" or "the Group")

Third Quarter Trading Update

Like-for-like gross profit up 23% in third quarter and 16% year-to-date reflecting client conversion at scale

- Third quarter Revenue up almost 53% and almost 13% like-for-like
- Third quarter Gross Profit up almost 79% and almost 23% like-for-like
- Year-to-date Revenue up almost 58% and over 9% like-for-like
- Year-to-date Gross Profit up almost 78% and almost 16% like-for-like
- Third quarter Revenue and Gross Profit like-for-like growth rate faster than first half with sequential improvements in each month
- Both EBITDA and EBITDA margin up very strongly in third quarter as momentum builds in second half
- Liquidity remains strong with net cash position still approximately £100 million including merger payments since July equity issue
- Client conversion at scale momentum increasing with three “whoppers” now secured and one in sight
- Four mergers or combinations announced in third quarter despite lockdowns with integration around both the content and data & digital media practices proceeding well
- Company trading well in line with internal and external expectations
- The Company’s latest and third three-year plan for 2021-2023 calls yet again for a doubling of top and bottom line organically

S4Capital plc (SFOR.L), the new age/new era digital advertising and marketing services company, provides the following trading update for the three months and nine months ended 30 September 2020.

The Group continued to progress with a very strong third quarter performance, despite the impact of covid-19 and is now more in line with its target of doubling organically in three years by 2021. Billings were £163.1 million up almost 13%. “Controlled” Billings (the overall Billings the Company directs) were \$0.4 billion. Revenue was up almost 53% to £86.4 million and gross profit up almost 79% to £75.3 million. Like-for-like (including impact of combinations, asset purchase and in constant currency) revenue and gross profit were up almost 13% and almost 23% respectively. Gross profit

improved sequentially each month in the third quarter, up 18% in July, 24% in August and 25% in September.

The number of people in the firm was 2,870 at the end of the third quarter, up 26% like-for-like compared to the same time last year, as we continue to hire aggressively around strong gross profit growth and significant new business wins. We also continue to expand our efforts in the areas of diversity, equity and inclusion, particularly in hiring, education and development programmes, such as the black minority focused S⁴Capital Graduate Fellowship Program and S⁴Capital Scholars Program for High School Interns. A diverse workforce is a business imperative and we are relatively well positioned, with 40% people of colour and gender balance already in the United States and the United Kingdom, to compete for assignments that increasingly demand diverse teams as a pre-requisite. We still, however, have to raise the proportion of black people we employ to the levels that exist in the communities in which we operate and which we are committed to do.

Year to date billings were up over 12% to over £424.0 million. “Controlled” Billings were \$1.7 billion. Year to date, revenue is up almost 58% to £227.7 million and gross profit up almost 78% to £199.3 million. Like-for-like revenue is up over 9% and gross profit up almost 16%.

Both reported and like-for-like earnings before interest, depreciation and amortisation (EBITDA) and operating gross profit margins at both the content and data & digital media practices improved significantly in the third quarter, as growth rates accelerated and covid-19 reduced travel and office costs. This was in line with the improvement indicated in the half-year results statement in September.

These figures include the impact of the content combination with Circus (completed in March 2020) and do not include Dare.Win (completed end of September). Data & digital media includes combinations with Digodat (completed in July 2020) and BrightBlue (completed end of August) and does not include Lens10 (completed end of September) and Orca Pacific (completed end of October). Integration around MediaMonks in content and around Mightyhive in data & digital media continues at significant pace. Work around unibranding to fully implement a unitary P&L continues and will be completed early in the new year.

Performance by Practice

Content practice revenue was up over 69% in the third quarter to £69.3 million, with like-for-like up almost 15%. Third quarter gross profit was up over 119% to £58.4 million and over 28% like-for-like. Both revenue and gross profit like-for-like growth strengthened significantly over the first half, as the Company exited the impact of covid-19. Year-to-date content revenue was up 74% to £181.0 million and almost 10% like-for-like. Content gross profit was up almost 113% to £152.8 million and over 19% like-for-like.

Data & digital media practice third quarter revenue was up almost 10% to £17.1 million and almost 7% like-for-like. Third quarter gross profit was up over 9% to £16.9 million and up 6% like-for-like. Year-to-date revenue was up over 15% to £46.7 million and up almost 7% like-for-like. Gross profit was up almost 15% to £46.5 million and almost 7% like-to-like.

Performance by Geography

The Americas showed exceptionally strong growth in the third quarter with gross profit up over 93% to £55.1 million and almost 27% like-for-like. Year-to-date the Americas gross profit was up almost 90% to £143.9 million and almost 18% like-for-like.

Europe, the Middle East and Africa also grew significantly in the third quarter, with gross profit up over 34% to £13.0 million and like-for-like up almost 7%. Year-to-date gross profit was up almost 40% to £37.0 million and like-for-like up almost 7%.

Asia Pacific also grew very strongly from a smaller base, with gross profit up almost 83% to £7.3 million in the third quarter and up over 26% like-for-like. Year-to-date gross profit grew over 85% to £18.4 million and like-for-like was up over 21%.

Balance Sheet

Net cash averaged around £87 million in the third quarter, up from approximately £13 million in the first half, reflecting the equity issue in the middle of July raising £113 million of net cash proceeds and despite merger cash payments in the third quarter of approximately £19 million. In addition, the Company has debt capacity of well over £100 million, before reaching its maximum target limit of 1.5-2x EBITDA.

Client Development and Momentum

The Company recently developed a 20² client objective. That is, to develop twenty clients with more than \$20 million revenue per year, termed “whoppers”. The company has made significant progress in deepening existing relationships and winning new accounts. Pride of place goes to the Content practice win at MediaMonks for the BMW/Mini European content and production account named “The Engine”, which will join Google and an NDA tech company as a third “whopper” in 2021. Significant progress is being made in securing a fourth “whopper” assignment. The company also won new business from clients including: T-Mobile, St. Jude’s Children Research Hospital, Mercado Libre, Hasbro, Fidelity, Whirlpool, Klarna, Beyond Meat, Palo Alto Networks, Shopify and brands in the Automotive, FMCG, Pharma and Consumer Electronics categories (all under NDA). There has been a significant recent acceleration of digital transformation initiatives in non-tech verticals, particularly consumer packaged goods or fast-moving consumer goods and healthcare, which in part may be a reaction to the challenges encountered by such businesses as a result of covid-19.

The merger or combination pipeline remains very strong and increasingly active in the United States recently, particularly given the possibility that a “Blue Wave” sweep in the United States Presidential Election might result in increased capital gains tax rates, let alone increased corporate tax rates. The actual outcome may have reduced that pressure, but activity still remains at a high level.

Current Trading

The Group continues to trade extremely well in line with its post-covid-19 forecasts and objectives for 2020. Given the return of levels of activity to pre-covid-19 levels, the Board has decided to return Executive and Non-Executive Directors’ compensation to the levels they were in March, when they were cut by 50% and no cash bonuses were taken for 2019, with effect from 1 October. “Normal” recruitment, raise and promotional policies were restored across the firm in the third quarter. The Company has not taken any Government support during the pandemic, with the exception of minor delays in the payment of sales and payroll taxes, where permitted. The Group has prepared a new three-year plan for the period 2021-23 and preliminary budgets for 2021, which are consistent with its objectives, which remain a doubling of top and bottom lines organically within three years.

Sir Martin Sorrell, Executive Chairman of S⁴Capital plc said: “Most importantly, the Board wants to thank all our people for their extraordinary efforts at this particularly difficult time and the efforts of all the front line workers who have protected us and kept us safe.

We continue to trade in line with ambitious internal and external targets, which now include doubling both top and bottom lines organically over the period 2021 to 2023. Our consistent, very strong organic gross profit growth of almost 16% so far this year and almost 23% in the third quarter, indicates that we are well positioned in the digital sweetspot of an otherwise stagnant advertising and marketing industry* and that clients are responding very well to our new age/new era, purely digital, “holy trinity” model of first party data fueling digital content, data & digital media.

Covid-19 has acted as an accelerator for search, social and ecommerce. Our very significant client wins in 2020, which include the BMW/Mini “Engine” in Europe, signal that we are achieving client conversion at scale, after achieving brand awareness in 2018 and brand trial in 2019. Our mantra of “faster, better, cheaper” or “speed, quality, value” and our unitary, one P&L structure, are clearly resonating with clients and differentiating our offer.

We are optimistic about the macro prospects for 2021, particularly given the likely Global GDP rebound, the probability of further vaccine, therapeutic and testing developments, Tokyo 2021 and Euro 2021 and, at a micro level, the progress we have already made with major new client assignments in 2020. We plan further integration and combinations in 2021, which will reinforce our client appeal.

Agility, accentuated by the impact of covid-19, remains the key, requisite corporate attribute for success, characterised by a shared purpose and vision, a network of empowered teams, rapid decision making, dynamic, passionate talent and enabling technology (the five dimensions identified by McKinsey & Co).”

* See market statistics in About S4Capital below

Key financials

£ million	Reported		+/-%	Like-for-like		+/-%	Reported		+/-%	Like-for-like		+/-%
	Q3 2020	Q3 2019		Q3 2020	Q3 2019		YTD 2020	YTD 2019		YTD 2020	YTD 2019	
Revenue												
Content	69,317	41,079	69%	69,317	60,543	15%	181,021	104,053	74%	181,021	165,006	10%
Data & Digital Media	17,075	15,553	10%	17,075	16,032	7%	46,718	40,551	15%	46,718	43,737	7%
Total	86,392	56,632	53%	86,392	76,575	13%	227,739	144,604	58%	227,739	208,743	9%
Gross Profit												
Content practice	58,370	26,614	119%	58,370	45,476	28%	152,783	71,830	113%	152,783	128,294	19%
Data & Digital Media	16,929	15,496	9%	16,929	15,978	6%	46,488	40,465	15%	46,488	43,650	7%
Total	75,299	42,110	79%	75,299	61,454	23%	199,271	112,295	78%	199,271	171,944	16%

Gross profit by Geography												
Americas	55,074	28,491	93%	55,074	43,545	27%	143,895	75,902	90%	143,895	122,114	18%
EMEA	12,972	9,654	34%	12,972	12,171	7%	36,963	26,452	40%	36,963	34,644	7%
Asia-Pacific	7,253	3,965	83%	7,253	5,738	26%	18,413	9,941	85%	18,413	15,186	21%
Total	75,299	42,110	79%	75,299	61,454	23%	199,271	112,295	78%	199,271	171,944	16%

A video webcast and conference call covering the trading update will be held today at 09:00 GMT, followed by another webcast and call at 08:00 EST / 13:00 GMT. Both webcasts of the presentation will be available at www.s4capital.com during the event.

09:00 GMT call - For dial in Q&A only

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08:00 EST/13:00 GMT call - For dial in Q&A only

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About S⁴Capital

S⁴Capital plc (SFOR.L) is the tech-led, new age/new era digital advertising and marketing services company, established by Sir Martin Sorrell in May 2018.

Its strategy is to build a purely digital advertising and marketing services business for global, multinational, regional, local clients and millennial-driven influencer brands. This will be achieved initially by integrating leading businesses in three practice areas: first-party data, digital content, digital media planning and buying, along with an emphasis on "faster, better, cheaper" executions in an always-on consumer-led environment, with a unitary structure.

Digital is by far the fastest-growing segment of the advertising market. S⁴Capital estimates that in 2019 digital accounted for approximately 47.5% or \$275 billion of total global advertising spend of \$550-600 billion (excluding about \$400 billion of trade support, the primary target of the Amazon advertising platform), and projects that by 2022 this share will grow to approximately 55-60% and to 65-70% by 2024. It is anticipated that in 2020, total global advertising spend will shrink to approximately \$500-550 billion, driven by a fall in traditional media advertising expenditure. However, digital advertising spend is expected to remain constant or increase slightly and exceed 50% of total advertising spend for the first time.

S⁴Capital combined with MediaMonks, the leading AdAge A-listed creative digital content production company led by Victor Knaap and Wesley ter Haar, in July 2018, and with MightyHive, the market-leading data & digital media solutions provider for future thinking marketers and agencies, led by Peter Kim and Christopher S. Martin, in December 2018.

In April 2019, MightyHive combined with ProgMedia to expand operations into Latin America and MediaMonks acquired film studio Caramel Pictures to expand content studio capabilities. In June 2019, MediaMonks announced a planned combination with Australia-based BizTech, a leading marketing transformation and customer experience company. In August 2019, MediaMonks combined with Amsterdam-based digital influencer marketing agency IMA. In October 2019, MediaMonks combined with Firewood Marketing, the largest digital marketing agency based in Silicon Valley, that was recently ranked, along with MediaMonks and Circus (see below), as one of the fastest growing agencies by Adweek, and MightyHive combined with award-winning UK-based digital analytics, biddable media and data science company ConversionWorks and South Korea-based data and analytics consultancy MightyHive Korea. In November 2019, MediaMonks announced its combination with Delhi-based content creation and production company WhiteBalance and then with fully integrated digital agency Circus Marketing in January 2020.

In May 2020, MightyHive announced a combination with Digodat, one of the leading Latin American data and analytics consultancies, and in June 2020, MightyHive announced its combination with Lens10, a leading Australian digital strategy and analytics consultancy. In July 2020, MightyHive announced a combination with Orca Pacific, a market leading full-service Amazon agency and boutique consultancy firm based out of Seattle. In August 2020, MightyHive announced a combination with London-based Brightblue, an econometric and media optimisation consultancy. In September 2020, MediaMonks announced its combination with Dare.Win, expanding its geographical presence to France.

On 16 July 2020 S⁴Capital announced the successful placing of 36,766,642 new ordinary shares at a price of 315p raising approximately £116m gross proceeds which will be used for further expansion and merger & combination purposes.

Victor Knaap, Wesley ter Haar, Pete Kim, Christopher Martin, Peter Rademaker and Scott Spirit all joined the S⁴Capital Board as Directors. The S⁴Capital Board also includes Rupert Faure Walker, Paul Roy, Daniel Pinto, Sue Prevezer, Elizabeth Buchanan, Naoko Okumoto, Margaret Ma Connolly and Miles Young.

The Company has 2,870 people in 31 countries across the Americas, Europe, the Middle East and Africa and Asia-Pacific and a market capitalisation of approximately £2.2 billion (c.\$2.9 billion), and would rank well into the FTSE 200. It has achieved Unicorn status in a little over one year, unique in the advertising and marketing services industry.

Sir Martin was CEO of WPP for 33 years, building it from a £1 million "shell" company in 1985 into the world's largest advertising and marketing services company with a market capitalisation of over £16 billion on the day he left. Today its market capitalisation is £8 billion. Prior to that Sir Martin was Group Financial Director of Saatchi & Saatchi Company plc for nine years.